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GUEST: **Axel van Trotsenburg**
Head, Debt Initiative Implementation Unit
World Bank

JOURNALISTS: Robert Reid, Associated Press
Thalif Deen, Inter Press Service

MODERATOR: Michael Littlejohns

HEAVILY INDEBTED POOR COUNTRIES DEBT INITIATIVE

A number of heavily indebted poor countries in sub-Saharan Africa and Latin America have been struggling to meet their external debt service obligations and at the same time achieve economic growth and sustainable development. To ease the debt burden of these countries, the international financial community has come up with a new approach: the Heavily Indebted Poor Countries Debt Initiative. Axel van Trotsenburg, Head of the World Bank Debt Initiative Implementation Unit, discusses the different aspects of this new initiative and its impact on the countries concerned.

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Director: Livingston Hinckley
Production Assistant: Ellen McGuffie

ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **World Chronicle**.

LITTLEJOHNS: I'm Michael Littlejohns, and this is **World Chronicle**.

The debt crisis of the 1980s has adversely affected the economic growth and development of many third world countries, especially in sub-Saharan Africa. A number of heavily-indebted poor nations have continued to experience difficulties meeting their external debt-service obligations while fighting poverty and striving for sustainable development. To assist these countries to bring their debt burden down to manageable levels, the international financial community has introduced the Heavily Indebted Poor Countries Debt Initiative.

To discuss this new approach with us today, our guest is Axel van Trotsenburg, Head of the World Bank's new Debt Initiative Implementation Unit. Joining me to talk with Mr. Trotsenburg are Robert Reid of the Associated Press and Thalif Deen of Inter Press Service.

Mr. van Trotsenburg, welcome to World Chronicle.

The documentation that we were given in advance of this programme is rather complicated, and I must say that, not being an economist, a lot of it goes over my head. And I dare say that if our audience were able to read it it would be above their heads, too, in most cases, except for the economists in the audience. I wonder if you could explain in simple terms what this is all about. I mean, I understand that it's basically to help the very poor countries. This is to help countries that are already bankrupt or on the verge of bankruptcy. And how is this help going to be extended to them?

TROTSENBURG: The Initiative tries to have a comprehensive approach to deal with the debt problem. Thus far, very often, the debt problem in sub-Saharan Africa, but also in Latin America, has often been dealt in a partial way. Concretely, often there were programmes in place, supported by the World Bank or the IMF —

LITTLEJOHNS: The International Monetary Fund.

TROTSENBURG: The International Monetary Fund, exactly. And often those countries received some sort of debt relief through the official channels, namely the Paris Club.

LITTLEJOHNS: What is this Paris Club? I've seen several references to that in the background.

TROTSENBURG: The Paris Club is an institution where official creditors are convening and rescheduling official credits owed by this country to those countries. This is mainly often developing countries owing money to OECD countries, and in order to facilitate this process, to have a comprehensive proposal among the bilaterals, there is this forum called the Paris Club.

LITTLEJOHNS: The Paris Club is composed of creditor countries or debtor countries?

TROTSENBURG: Of the creditor countries.

LITTLEJOHNS: Creditor countries, yes.

TROTSENBURG: And what happened in the past was often that this debt relief would be only on bilateral debt, but one would not look at the overall debt situation, because often these countries would have commercial bank debt, would have then the bilateral, but also multilateral debt. And what we have seen over the last couple of years happening is that while these countries have made efforts in adjusting their economies, getting their fiscal situation right, getting their current account deficits down through exchange rates adjustment, and even trying to reinforce their social programmes, what we have noticed is this was often not sufficient, and that, despite this debt relief provided through official channels, that that would not be sufficient to get that down to so-called sustainable levels, sustainable meaning that indeed these countries could exit the rescheduling process, meaning the rescheduling is very often that you would have to go to this forum repeatedly to reschedule what is due this year or the next year, and this has become a little bit counterproductive. And therefore the idea was to see how one could help these countries with programmes in place, with adjustment programmes in place, that you would say, look, let's have a comprehensive approach, let's not only look at one creditor group, but let's look at all creditors. And this Initiative tries to deal in a comprehensive way with this debt problem and then decides on what would be the level of debt which would be considered sustainable or manageable.

LITTLEJOHNS: Are you recommending debt forgiveness? I mean, Canada is a country which has been advocating debt forgiveness. The United States perhaps does not go that route. What do you think?

TROTSENBURG: The debt forgiveness — I would like to say that already many bilateral countries have provided debt relief in one or the other form. That can be through debt forgiveness, but it could also be by extending highly concessional credits. This could be even more below market rates. So that you would have, instead of a 6 per cent interest rate, you would have only 1 per cent. So there are many forms in which you could address the debt problem to ease the debt service burden. This programme which we have, which was adopted by the Interim and the Development Committee last September in Washington, is dealing that we say, look, countries which have good macroeconomic policies in place and who undertake structural reforms as well as trying to address their social agendas should be helped. And, for the first time, it would also include action by multilateral organizations.

DEEN: This Initiative I believe is something new which has been started by the World Bank. How big is your fund, in terms of how much you are going to dole out to these countries? Because I'm told that initially you are getting a contribution of $500 million, but

the total third world debt is about $1.3 trillion. So this $500 million, wouldn't it be just a drop in the ocean?

TROTSENBURG: That is a very good question. First, I would say this Initiative is a joint initiative, it is not only the World Bank, it is also together — it was designed with the IMF together. I would caution, when you take the amounts, often we take the entire debt situation of all developing countries, and that includes also middle income countries, and there you would get an amount of $2,000 billion. However, that number includes debts owed by Korea or Malaysia or the Chinese, and also includes the low income country debt. The portion we are looking at is of the heavily indebted poorest countries, and there there are about 41 countries. And that debt is about $200 billion.

DEEN: $200 billion.

TROTSENBURG: $200 billion.

LITTLEJOHNS: Well, even so, $500 million is not going very far to —

TROTSENBURG: No, I would want to put that in perspective. Out of this whole thing, what is owed to multilateral institutions, meaning World Bank, IMF — those are regional development banks — is about 22 to 25 per cent. The rest is owed to the bilaterals as well as to commercial creditors. So out of this whole portion of $200 billion, about $25 billion. What is owed to the World Bank is about 8 per cent of that total $200 billion, it's about $16 billion. What the World Bank has said was, look, we do this Initiative, and many questions were asked: How much will this cost? How much — who will benefit from this? This will depend largely on an analysis which has to be undertaken on a case-by-case basis. But often we didn't have at the design basis all the exact numbers. For this reason, Mr. Wolfenson, the President of the World Bank, suggested to show the World Bank's commitment to this Initiative by saying, look, we are going to put $500 million out of surplus from IBRD [International Bank for Reconstruction and Development, a World Bank institution] income to this Initiative. However, the World Bank has always indicated if this is not sufficient the World Bank will do its share. I may recall, at the Lyons Summit last summer, by the G-7, there was even an amount of $2 billion mentioned, if that were to be necessary. The World Bank has said what is the most important thing is we should focus on the objectives of this Initiative: bring the debt of these countries to manageable levels. What should be done from the World Bank side will be done, and the World Bank will pay for its share.

LITTLEJOHNS: Robert?

REID: What precisely is the role of the private commercial lending institutions in this? I would imagine that considerable debt would be owed to private banks world-wide.

TROTSENBURG: Well, this is sometimes the perception when one deals with the developing countries, because one sees a lot of private capital flow now going to those

countries; but it is often concentrated into the middle income countries, like Brazil, Mexico. If you ever look at the poorest country, actually, very little money has gone in, and the debts which were owed were often in arrears and have often been settled already. This has been done often through the so-called IDA* debt reduction facility. That's a facility set up by the World Bank and financed through net income, whereby basically we help, often together with donors, to facilitate the buy-back of this commercial bank debt at a high discount. To give you just an impression of the amount of the discount, most of the operations were on the order of 85 to 95 per cent discount. Then there are very few countries which have had large commercial bank debts, and they are being dealt with in the form of kind of Brady type work-outs along the lines of Mexico's. But overall —

LITTLEJOHNS: Brady type — this is the American concessional thing.

TROTSENBURG: Where you would have a menu of options. But we would say that, given that these are the poorest countries, when they are, or when those countries are seeking to have a work-out with the banks, the banks are facing the fact that a large discount would need to be given in order to allow those countries even to get back to sustainable levels, but also to regain some of their payment capacity.

REID: I had always been under the understanding, or perhaps the misconception, that the IMF was involved in programmes like this in the past, in that when the IMF went to a particular country to help this country work out its debt problems, examination was made of all these other aspects — the social, et cetera. And I'm a little curious about what makes this programme different from those programmes.

TROTSENBURG: I think what has happened in the past was, very often, that these countries would pursue an adjustment programme, which would then be fully financed, where you would most likely see an IMF-supported programme, where financing would come — you would have a World Bank-supported programme from which financing would — and from the regional development banks, African Development Bank, or the Inter-American Development Bank in Latin America. What, however, has transpired over time is simply that, despite all the efforts, all the restructuring which these countries have undertaken, it has proved not to be sufficient to get out of the problems. And particularly to say how could you get them back completely to a development agenda and say, look, everyday debt is the issue for those countries, and how could you help that? This has been actually, I think, also a learning process, where basically we are seeing that also the multilateral institutions have come around and said, look, we would also need to deal with the multilateral part of it, and it will not be sufficient if only bilateral commercial bank debt is dealt with.

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* International Development Association, an affiliate of the World Bank.

LITTLEJOHNS: This is **World Chronicle**. Our guest is Axel van Trotsenburg, head of the World Bank Debt Initiative Implementation Unit. Mr. van Trotsenburg, you talk about sustainability. What does that mean? What percentage of gross national product or whatever is sustainable?

TROTSENBURG: Well, this was a long debate which we had. What we try to look at is what — how would you define sustainability with regard to external debt. And here we looked actually more at the experience: Which countries, with what kind of debt levels, would face repeated reschedulings, so that they would have to go back to the Paris Club? And what we found was that most of the countries which would have debt in terms of present values as a proportion of exports in the area of over 2 to 250 per cent would often have repeated reschedulings, would face debt-servicing problems. And, as I indicated, it was the so-called debt service ratio — that is the debt service they have to pay as a percentage of exports — if that were to be above 20 or 25 per cent of the export receipts, very often we would see that those countries would face debt problems. Hence, what we did with the Initiative was to define sustainability in those terms, that if a country were to have a debt-to-export ratio of around 200 or below 200 that it could be considered sustainable, as well as a debt service ratio below 20, then it would be considered sustainable. Now, very clearly, this is a rule of thumb. We have always said you need to look pragmatically at this, because you could have countries which, despite the fact that they fall in this category called sustainable — that there may be problems. Therefore, what we do when we undertake a debt-sustainability analysis, we would undertake a sensitive and vulnerability analysis. Very often, these countries have a very tight fiscal situation, and you would need to take the fiscal situation into account, if a Government indeed can generate internally those resources to service this debt. Another one is, for example, you look at the export structures. We know that, given that these are the heavily [indebted] and poorest countries, that they often are very commodity-dependent. So, if you are — take the case of Uganda, where you have almost 70 per cent of your coffee exports earning — 70 per cent of your earnings are from coffee: there, of course, if you have fluctuations in prices, that debt makes you vulnerable. Now, those things you would need to take into account and make an assessment. But for our recommendations to our board, we would take those two indicators and we would supplement that with an analysis of the vulnerability of each country.

DEEN: I'm sure you are aware of the criticism of the World Bank on the structural adjustment programme, where the World Bank usually lays down conditions in return for loans — you know, things like privatization, reducing budget deficits. Now, even on this debt relief initiative, are you going to lay down conditions before you give debt relief to these countries?

TROTSENBURG: Well, it is very clear that countries with often high debt have also had problems sometimes with policy performance. And we have to struggle with this famous moral hazard problem.

LITTLEJOHNS: I'm sorry, with what?

TROTSENBURG: The so-called moral hazard problem, meaning that you could have a very high debt burden because of mismanagement, and then you would qualify, whereas a country which, for example, were to have policies in place whereby they had prudent debt management, they would not qualify, although they have been trying to manage their debt situation in as prudent a manner as possible. For that reason, what we always have said is that this debt relief should be predicated on good policy performance, and that those countries need to have IMF as well as Bank-supported programmes in place. The reason is to build up a good policy record. If you don't have certain macro-economic policies in place, and you provide debt relief, you may face the same debt problems the next day if the underlying reasons have not been addressed. This Initiative is about that you assume that countries which have a demonstrated track record of a certain policy performance where their macro-economic situation is stable, where the structural reforms are being advanced, that in this case also debt relief will work.

DEEN: So relief will be conditional.

TROTSENBURG: The relief will be conditional on the compliance with World Bank and IMF-supported programmes. That's correct. What I would like to add, however, is that in this Initiative — is what I said at the outset: when we talk about sustainability, there is an interest from the Bank to get the country and our dialogue back to the development agenda. So, therefore, in support of those programmes, we are going to have an extensive dialogue on the social component, which we would like to monitor during those programmes.

LITTLEJOHNS: What does that mean, the social component?

TROTSENBURG: The social component would basically mean to see how the World Bank could already, during the phase while these countries are building up their performance record, have a strong social programme.

LITTLEJOHNS: Health, education?

TROTSENBURG: Health, primary — an investment programme in primary health. Investment in primary education. See that those programmes can be executed. What needs to be done, for example, before the debt relief is delivered? Because, as I said, you need a certain performance record. Now, certain countries are in very difficult shape; their debt levels are so high that they don't have enough money to do those programmes. And what the World Bank has suggested in those cases is that we would support, on a selective basis, grand financing. We provide to those countries right now IDA credits. These are credits —

LITTLEJOHNS: That's the International Development —

TROTSENBURG: Association. This is the soft loan arm of the World Bank. Providing credits with a maturity of 40 years, 10 years grace, no interest, and a 0.75 per cent covering charge. Despite this concessionality in those loans, we would consider providing to those countries which are eligible also grand financing, so that they could first of all already improve their debt profile. But of course we would hope that they would reinforce their social programmes.

LITTLEJOHNS: Robert?

REID: Do you find countries that are likely to qualify for this more receptive perhaps than they used to be a few years ago, back when the IMF had a reputation as being a brutal taskmaster, perhaps a source of destabilization even?

TROTSENBURG: Well, in my experience, actually there has been rhetoric. I think that there is in the developing world also an emerging consensus, and I would -- actually a quite strong consensus that a lot of Governments also realize what needs to be done. And these are sometimes difficult decisions, and we try to help them. I think in response to this HIPCs Initiative the reaction has been very positive. There have been many expectations. I think also because what is being tried even more so is this whole notion of a tripartite exercise, that we undertake the analysis — that it is not only done by the World Bank or the IMF in Washington, no, that we go together through this exercise with the Government. I think that helps also for the transparency, that one explains what one wants to do. I think it has had a tremendous positive response from Governments, and I think it — we are actually quite excited about this implementation, because they see that we both try to attain the same objective, namely, to help those countries get to sustainable —

LITTLEJOHNS: Mr. van Trotsenburg, may I ask you, what are you doing to encourage democracy in some of the countries that are your clients, so to speak, that are certainly not democratic? Which may be the majority of them. And also, in the area of conservation, protection of the environment, which is of great concern these days. Is the Bank pressing those two themes?

TROTSENBURG: Well, they are not directly or only related to the HIPCs Initiative.

LITTLEJOHNS: HIPCs of course is the acronym for heavily indebted poor countries.

TROTSENBURG: This is much of a wider dialogue. The World Bank as such, we don't have a political mandate. But what we are trying to achieve, for example, in our so-called country assistance strategies, when we are preparing lending or a dialogue strategy towards a Government, what we are increasingly doing is having dialogue with civil society, meaning that we would talk with trade unions, with NGOs, invite them —

LITTLEJOHNS: But many of these countries don't have trade unions, do they?

TROTSENBURG: Well, you would be surprised that there are many. And that actually what we are trying to do is to lay out as much openness as possible, because also like with this Initiative, what our interest is is ultimately that people understand for what you are doing this, what is the underlying objective, so that it is shared and we can go on with it. It is in the end the effectiveness of our dialogue and also of the actions that determines the effectiveness of our organization, and there is a strong effort to do so. Related to your question with the environment, that is again not so much part of this Initiative, but of course an integral part of our dialogue. And we support that not only for what we call so-called environmental action plans, but we also do that through direct lending — that can be in the forestry sector, it can be in sewage, it can be in water or air pollution, it can be in the different sectors where there are —

LITTLEJOHNS: But is this *quid pro quo*? I mean, we'll lend you money if you'll do something to protect the environment?

TROTSENBURG: No, no, no. Because there what we have is largely debtor projects, and they are prepared together with the Government. And they have their own logic that you dialogue with it, you identify the problems, and you see if there are financing needs; if so, how can the World Bank then be of assistance. It can be together with other organizations. We could be a co-financier, we could be the lead manager of this project from the external side. But it is certain that this depends on the dialogue with the Government. What I would, however, want to stress [is that] when we do these projections on the long-term sustainability of the debt situation, we make also those long-term projections, of course, for example, of exports. Now, there, I think it is a very interesting reality check that, of course, there you see that if you were to be projecting log exports, 10, 15 per cent, that at the end of the 20-year period you wouldn't have any trees left in that country. So I think there comes the reality check. And this has been a very good thing, to have realistic assumptions, but also that you see what are the limits of the natural resource base underlying these projections. And I think that has been, at least in the dialogue we had with some of the countries, extremely positive.

LITTLEJOHNS: Mr. van Trotsenburg, that's all the time we have. It's a very interesting subject, and I guess you're optimistic about the results that you're going to have. Thank you for being with us on this edition of **World Chronicle**.

Our guest has been Axel van Trotsenburg, head of the World Bank Debt Initiative Implementation Unit. He was interviewed by Robert Reid of the Associated Press and Thalif Deen of Inter Press Service.

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle**.

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